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Approved by: **Jim Dever, Ag Attache**
Prepared by: **Asif Farrukh, Ag Specialist**

U.S. Embassy Islamabad, Pakistan
U.S. Embassy Islamabad, Pakistan

Report Highlights:

Despite the downturn in the economy, Pakistan's consumer food imports are growing at a fast past and hold potential for increased U.S. exports of retail food products.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Islamabad [PK1], PK

SECTION I. MARKET OVERVIEW

With an estimated 150 million consumers, Pakistan is the world's ninth largest market. Economic growth, which averaged more than 5 percent annually for the past decade, slowed last year as a result of the Asian financial crisis and economic sanctions imposed following Pakistan's May 1998 nuclear tests. One of the major objectives of Pakistan's new military government is to restore investors' confidence and to implement broad economic reforms, with the aim of stimulating growth. Although per capita income remains low (about \$450), there is a large and growing consumer class (estimated at about 25 percent of the total population). The average Pakistani consumer spends 42% of her income on food.

Major changes are beginning to occur in Pakistan's food sector as lifestyles and traditional eating habits begin to change. The value of processed retail food sales has grown 12 percent annually during the past decade and currently is estimated at about \$1.1 billion, including about \$250 million worth of imported consumer foods. Some sources estimated that more than half of Pakistan's consumer food imports are not reported officially. Supermarkets, which are expanding at the expense of traditional wet markets and small independent shops, now account for about 10% of all retail food sales. In addition, numerous western-style fast food chains have opened in Pakistan and are becoming increasingly popular.

Pakistan is an Islamic republic. Pork and pork products as well as alcoholic beverages may not be imported for religious reasons. Consumers also have reservations about imported meat products due to concerns about the reliability of "halal" products originating from non-Islamic countries. There are no other restrictions on other consumer foods. Although tariffs on consumer foods have declined over the past few years, they remain relatively high. The maximum duty on consumer food items is 35% and the average is about 25%. There is an additional 15% sales tax on most imports.

U.S. Market Position

Although Pakistan generally is considered to be a price-sensitive market, consumers often prefer imported food items for both quality and status reasons. Although U.S. items are popular, the product's origin is generally not the primary decision variable. Currently, direct imports of U.S. retail food products account for about 1% of Pakistan's total imports of consumer-oriented food products. Although U.S. exports of consumer foods grew 48% during 1999 to about \$2 million, U.S. products continue to face stiff price competition. Pakistani consumers prefer a number of U.S. products, including processed fruits and vegetables, nuts, snack foods, breakfast cereals, dairy products, sauces, peanut butter, microwaveable popcorn and eggs and products.

Despite the downturn in the economy, demand for domestic and imported processed foods continues to show considerable growth and numerous new-to-market products have been successfully introduced. Popular imported food items include juices, canned fruit, sauces, honey, coffee, candy, condiments, nuts, dressing, snack foods, powdered milk and other dairy products, including ice cream. Health and dietary food items are growing in popularity.

Efforts to increase contacts between U.S. suppliers and Pakistani buyers will continue to be instrumental in increasing U.S. sales. These contacts help to increase the buyers' awareness of the quality and variety of U.S. products as well as their understanding of the necessary import procedures.

***ADVANTAGES and CHALLENGES FACING
U.S. CONSUMER FOODS in PAKISTAN***

<i>ADVANTAGES</i>	<i>CHALLENGES</i>
About 20% of Pakistan's 150 million consumers buy imported retail food. Total imports approach \$500 million.	Products imported directly from the U.S. accounts for less than 1% of all retail food imports.
Quality and safety are important decision variables.	Retailers and consumers have limited knowledge of the variety and quality of U.S. products.
Consumer food sales are expanding at 25% annually.	Pakistan is a price sensitive market. U.S. suppliers face stiff price competition.
U.S. popular culture and U.S. products, including fast foods, have growing appeal.	Retailers and consumers have limited knowledge of the variety and quality of U.S. products.
Plenty of opportunity for new-to-market products	Limited knowledge of U.S. export practices and procedures. Importers seek exclusive distribution to protect investment.
Import regulations now are more transparent and tariffs have been reduced to a maximum of 35%.	Additional transparency and reforms are required. Tariffs still high and require further reduction.
Pakistan's new government appears committed to restoring business confidence and reviving the economy.	Reforms will require several years put Pakistan back on the road to recovery.

SECTION II. EXPORTER BUSINESS TIPS

Pakistan is a price-sensitive market. Only a very few retailers or processors have the resources to import directly. Instead, most buy from wholesalers or brokers in small quantities. Hiring a local representative is the key to successful entry in the Pakistani market. The local representative should have a thorough understanding of the product and import regulations, including labeling and other requirements. In addition, he should understand the local market and consumers' preferences, have an efficient distribution network and, above all, be committed to marketing the product. Seminars and exhibits demonstrating the quality and variety of U.S. products also will

help to stimulate sales.

Goods generally are required to be imported under a Compulsory Letter of Credit (L/C), unless a special exemption is obtained in advance. Revolving, transferable, packing Letters of Credit are not permitted. Letters of Credit should provide for negotiation of documents within a period not exceeding 30 days from the date of shipment.

Payment to the beneficiary (stipulated in the L/C) may be made either in the country of origin or in the country of shipment of goods. Other payment terms are subject to the approval of the State Bank of Pakistan (SBP). Remittances may be made soon after goods have been cleared from the customs.

Pakistan customs authorities require a commercial invoice and a bill of lading (or an airway bill). Exporters should forward documents separately if shipment is by sea, but should include them with air shipments. A certificate of origin is not legally required but may be required by the consignee or consignee's bank. When a certificate of origin is not requested, a statement of country of origin should appear on the invoice. Consular invoices are not required.

Currently, there are few labeling regulations for food items within Pakistan. Generally speaking, if an item is permitted to be imported, labeling should not be a problem if it conforms to the following explicit regulations:

- Goods may not bear any obscene writings, inscriptions, or visible representations.
- Goods may not bear any words or inscriptions of a religious connotation.
- Goods must have date of manufacture and expiry printed on each retail pack.

For details on Food Standards and Regulations see FAS/Islamabad's Food and Agricultural Import Regulations and Standards (FAIRS) report on the FAS homepage.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Importers usually import a variety of products in small shipments, which they supply to a variety of outlets. Importers generally visit international consolidators in person to make purchases. Importers or agents who promote a product expect exclusive distribution rights to protect their marketing investment. Importers often also act as wholesalers or distributors but few have national distribution networks. Refrigerated distribution is limited to a few large local food processors.

Dubai, one of the United Arab Emirates, is now the most important transshipment center for consumer-ready food products to Pakistan. However, the limited availability of U.S. products in Dubai is one factor which contributes to the U.S.' small share of Pakistan's consumer food market. European suppliers, particularly Dutch, German and French suppliers, currently supply the bulk of consumer food items to Pakistan. However, sales from Far Eastern suppliers, especially Malaysia and Thailand, are increasing as a result of their price competitiveness. The East Asian suppliers primarily sell juices, while European suppliers dominate with milk and milk

products. Please refer to the following reports for details on consumer food trade and sectoral demand: 1999 Retail Food Sector report (PK9034), 1999 Food Processing Sector report (PK9035), 1999 HRI Food Service Sector report (PK9036).

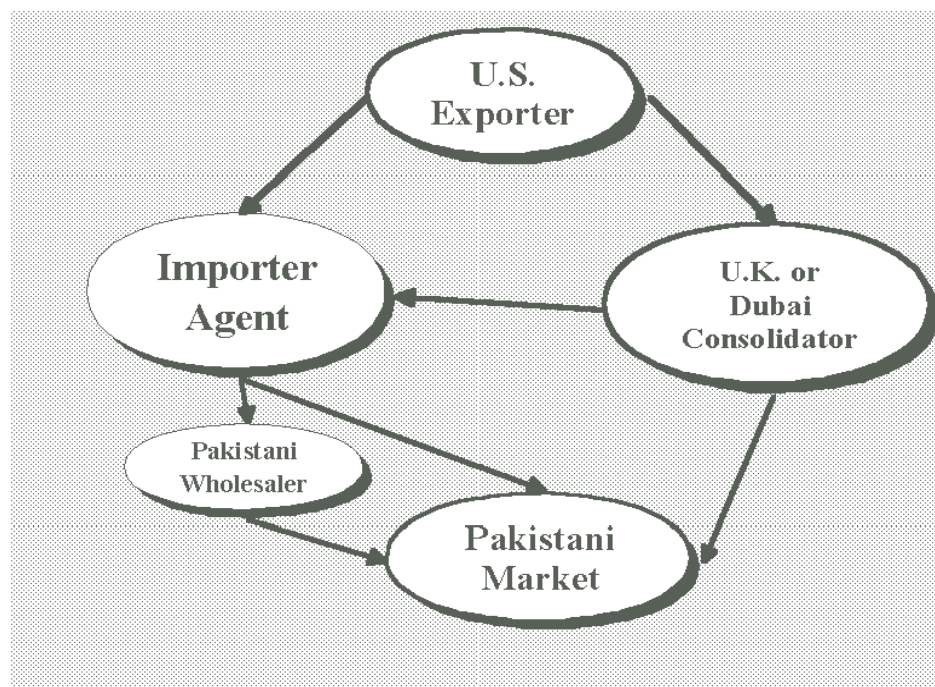
Consumer-Ready Product Market Trends

Demand for imported foods is growing, particularly among educated, middle and upper income urban consumers due to changing lifestyles, exposure to foreign media and increasing concerns about health. Advertising also has helped to stimulate demand for imported products. Popular imported food items include: canned fruits and juices, snack foods, candy, cereals, condiments and mixes. These items are increasingly becoming available in small towns and rural areas. However, income constraints, traditional eating habits, limited marketing and a lack of consumer information continue to be significant impediments to increasing demand for consumer-ready foods for much of Pakistan's population.

Distribution System for Consumer-Ready Food Products

The food import business is dominated by small commercial importers, who prefer to sell containers or cases of each product to brokers or wholesalers. Almost all items are imported as part of a consolidated shipment. Only a few distributors maintain a national network. Most distributors operate a regional network and distribute products by truck via a generally good-to-adequate road network. Refrigerated distribution is limited to only a few local food processors.

MARKET STRUCTURE



Items almost always are imported in consumer-ready packaging and little or no repackaging is done locally. In fact, one important reason for the growth in demand for imported consumer foods is food safety. Pakistani consumers generally have more confidence in the quality of imported items and thus only trust the manufacturer's packing.

Domestic Food Processing Sector

Pakistan's food processing industry is large and growing. The sector currently accounts for about 17% of Pakistan's manufacturing output. During 1999, the food processing sector produced an estimated \$7 billion in products. Growth has averaged around 8 percent annually during the past 5 years. The sector is characterized by numerous small, processing units. In 1999, there were an estimated 4,600 food processing firms, each of which, on average, employed less than 10 workers.

Almost half of the food processing industry is located in the port city of Karachi, with the remainder spread among the major urban centers. About a quarter of the industry is involved in fruit and vegetable processing. Edible oil processing also is a important sub-sector and is forecast to expand as Pakistan looks to reduce its \$1.2 billion bill for imported oils by capturing the value-added of local processing. Other important sectors include: ingredients, spices, canned fruits and vegetables, UHT milk, meat and fish, snack foods, and beverages.

The local food processing industry relies heavily on imported materials. During 1999, sources estimate that locally produced raw materials supplied less than half of the requirements of the food processing industry, resulting in imports of more than \$900 million. Despite the current recession, the industry is expected to grow at more than 5 percent annually for the next five years. On the supply side, direct foreign investment provides new technology and expanded production capacity. On the consumption side, the change to a 'western lifestyle' has helped to increase demand for processed foods. Growth in demand will continue to be from the domestic market. Pakistan is not expected to become a regional supplier of processed foods for the foreseeable future.

Tourism, Holiday Gifts and Internet Sales

Except for mountaineering in the northern areas, Pakistan is not a major tourist destination. Holiday gift-giving is important, especially during the two major Islamic religious 'eids'. Snack food, juices and confectionary products are popular 'eid' gifts. Internet sales remain some years in the future.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

Branded retail-packed vegetable oils, roasted nuts, peanut butter, chips, confectionery products, chocolates, fruit cocktail, mayonnaise, juices, honey, and cereals are popular imported food products. For details see Retail Food Sector Report (PK9034).

SECTION V. KEY CONTACTS

If you have questions or comments regarding this report or need assistance exporting to Pakistan (or Uzbekistan or Kazakhstan), please contact the Foreign Agricultural Service Office in Islamabad at the following:

U.S. Mailing Address: Agricultural Attache
AMEMB-Islamabad
Unit 62200, Box 16
APO AE 09812-2200

Local Address: Agricultural Attache
U.S. Embassy
Diplomatic Enclave
Ramna 5
Islamabad, Pakistan

Phone: (92-51) 2080-2276
FAX: (92-51) 2278-142
E-mail: agislamabad@fas.usda.gov
Homepage: <http://www.fas.usda.gov>

TABLE A: KEY TRADE and DEMOGRAPHIC INFORMATION (98/99 Jul/Jun)

Agricultural Imports from All Origins	\$2.186 billion (US Share 13%)
Consumer Food Imports from All Origins 1/	\$225 million (US Share 1%)
Edible Fishery Imports from All Origins	\$0.1 million (US Share 20%)
Total Population	150 million (2.3% Growth Rate)
Urban Population	45 million (3.4% Growth Rate)
Number of Major Metropolitan Areas 2/	8
Size of Middle Class 3/	81 million (3% Growth Rate)
Per Capita Gross Domestic Product	\$450
Unemployment Rate	2.6%
Per Capita Food Expenditures	\$190
Percent of Female Population Employed	5.4%
Exchange Rate	\$1=Rs.54.20

1/ State Bank of Pakistan Annual Report 1998/99.

2/ Population in excess of 1,000,000

3/ Source: GOP household income expenditure survey.

TABLE B: CONSUMER FOODS and EDIBLE FISHERY PRODUCTS IMPORTS

No data is available on Pakistan's consumer food and edible fishery imports. Pakistan imports an estimated \$250 million in consumer foods and about \$100,000 in edible fish products. The U.S. share of the consumer food market is \$2 million or about 1 percent. The U.S. share of edible fish imports is about 20 percent.

TABLE C: TOP 15 SUPPLIERS OF CONSUMER FOODS and FISHERY PRODUCTS

No data is available. However, Europe is a major supplier of consumer foods, including subsidiaries of U.S. companies. Eastern European and Far Eastern suppliers often are very price competitive and are becoming important suppliers of consumer food items.